8/10/88 R5650-2

JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

A Two-Part Report: A and B

NO. 30A

August 5, 1988

THE TAKESHITA GOVERNMENT: INTERNATIONAL TRIUMPHS AND DOMESTIC CHALLENGES

Summary

Prime Minister Noboru Takeshita took office last November with a reputation for being a political technician adept at the behind-the-scenes maneuvering and consensus-building that is the essence of Japanese politics. While he was expected to excel in managing domestic policy issues -- an area where his predecessor, Yasuhiro Nakasone, sometimes encountered difficulties -- there were concerns that his low-key style and apparent lack of interest and experience in foreign policy would leave him ill-equipped to deal with Japan's increasing global responsibilities.

After approximately nine months in office, however, an entirely different scenario has unfolded. Mr. Takeshita has repeatedly surprised critics with his outgoing approach to diplomacy. Ironically, his biggest challenges appear to be on the domestic policy front. The true test of the prime minister's vaunted political savvy may well come in shepherding through the Diet a comprehensive tax reform proposal. The extraordinary Diet session that convened in mid-July for the express purpose of considering the tax legislation could prove to be a turning point in Mr. Takeshita's prime ministerial tenure.

The Takeshita Style: Quiet But Effective

Since entering office in November 1987, Noboru Takeshita has administered his government in the deliberative, consensus-oriented manner typical of

most postwar Japanese prime ministers, save his immediate predecessor, Yasuhiro Nakasone. Unlike the sophisticated and innovative Mr. Nakasone, Prime Minister Takeshita has not championed "new ideas." As the consummate party man, he has relied on Liberal Democratic Party officials and government bureaucrats to formulate policy proposals or rework the initiatives of his predecessors. The academics and bunkajin (men of culture) who actively participated in Mr. Nakasone's policymaking circle do not have Mr. Takeshita's ear. Instead the veteran political operator and deal maker has sought to implement, rather than conceive of, policies. As one American expert on Japanese politics described the prime minister, "he is essentially an arbiter who prefers to let others bring ideas to him. . . . His specialty is working within the existing party and government structure . . . and he does this very well!"[1] This modus operandi has been carefully developed and honed during Mr. Takeshita's 37 years in public service and in large part it has propelled him to the leadership position he enjoys today.

The prime minister's speech to the Diet November 27, 1987, for example, contained general references to the need for Japan to contribute more to the international community and the importance of reforming the tax system and halting the soaring prices of real estate. Certain members of the Japanese press criticized the address for its ambiguities and reiterations of past governments' policy goals. As the new year unfolded, however, the prime minister further elaborated on these declarations after the relevant government agencies had fleshed out specific proposals. Although some might argue that this approach lacks the originality and dynamism required of a global leader, within the Japanese context it has proven to be quite effectual. As one of his former aides pointed out, Mr. Takeshita's forte is not in mastering the details or conceptualizing new approaches to an issue but in understanding which Diet members can be induced to offer him help.[2]

In fact, the prime minister's political acumen, reliance on bureaucratic expertise and careful regard for the consensus-driven decisionmaking process appear to have facilitated Diet action on a number of proposals. By the regular Diet session's May 26 closing, the legislature had passed 75 of the 83 bills introduced by the government, including the Y56.7 trillion ($453.6 billion at Y125=$1.00) FY 1988 general account budget and long-sought legislation aimed at reversing the spiral in land prices. This constituted a 90.4 percent passage rate, the highest for a regular Diet session during the last 30 years. The prime minister also struck a deal with the opposition parties to cut personal income taxes at the national and local levels for 1988 and to postpone the introduction of the controversial indirect tax -- a bid for less contentious consideration of tax reform during the extraordinary Diet session.

[1]Remarks by Nathanial Thayer at Johns Hopkins School of Advanced International Studies seminar, "Developments in U.S.-Japan Relations," April 14, 1988.

[2]Urban C. Lehner, "Takeshita May Lack Pizazz But His Persistence Is Producing Some Surprising Breakthroughs," Asian Wall Street Journal, July 18, 1988.

The JEI REPORT (ISSN 0744-6489) is published weekly except for the New Year, Memorial Day, Labor Day, Thanksgiving and Christmas holiday weeks for $40 per year by the Japan Economic Institute of America, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036. Second class postage paid at Washington, D.C. POSTMASTERS: Send address changes to JEI REPORT, 1000 Connecticut Avenue, N.W., Washington, D.C. 20036.

His strategy also proved effective in winning Diet support on heated international issues, such as the long-simmering beef and citrus trade issue. Mr. Takeshita quietly orchestrated support for an agreement with the United States through months of beind-the-scenes negotiations with key LDP representatives of farming interests. According to parliamentary officials, both the LDP and the opposition parties were pleased with the outcome of the first regular Diet session and attributed this "rare occurrence" to the prime minister's "non-confrontational approach that diffused possible crises in Diet politics."[3] The Takeshita style is predictable, conscientious and low-key but it has produced policy results in areas that eluded his more extroverted predecessor.

International Achievements

Although no one doubted that Mr. Takeshita's 30-odd years in LDP politics would serve him well in managing domestic policy issues, his apparent disinterest and inexperience in foreign affairs initially was viewed as a major liability for his administration. Given Japan's emergence as a global economic power, Japanese political observers maintained, another bold, visionary, internationally minded leader like Yasuhiro Nakasone was needed if Tokyo were to fully embrace the responsibilities attendant with its leadership role. (The former prime minister, in fact, has continued to hover in the background, perhaps hoping to further his diplomatic mission through much publicized plans to establish a foreign policy think tank and international speaking engagements.)

As if to deliberately challenge his critics -- and definitively answer questions as to who is really at the foreign policy helm -- Prime Minister Takeshita since entering office has embarked on an ambitious agenda of international visits. In certain instances he has seized the initiative by outlining ways to settle troublesome issues or proposing new plans generated by the Foreign Ministry, Mr. Nakasone or others. Chart 1 indicates that Mr. Takeshita has actively sought the tutelage of Foreign Ministry bureaucrats to prepare him for the diplomatic tasks ahead.

Chart 1: Visits to Prime Minister Takeshita by Representatives of the Top Five Ministries

(November 1987-April 1988)

	Visits
1. Foreign Ministry*	55
2. Finance Ministry	23
3. Ministry of International Trade and Industry	17
4. Ministry of Agriculture, Forestry and Fisheries	14
5. Japan Defense Agency	9

*Does not include visits from ambassadors.

Source: Japan Economic Journal

[3]Shinji Ito, "Diet Session Ends 'Full Of Results'," Japan Times, May 26, 1988.

Beginning with his December 1987 trip to the Philippines to attend the summit meeting of the Association of Southeast Asian Nations and building to his "first act finale" at the June summit meeting of the major industrial nations in Toronto, Mr. Takeshita has demonstrated to domestic and international audiences that he is able to navigate Japan through the often rough seas of global politics. Consider the following achievements:

The Toronto Summit - Unlike at previous summits where Tokyo found itself on the defensive due to Japan's huge trade surplus, the prime minister went to Toronto with an impressive array of statistics substantiating the effectiveness of Japanese government policies designed to foster domestic demand-led growth and reduce the trade surplus. Japan's trade surplus has been declining in dollar terms since the second quarter of 1987 (see JEI Report No. 29B, July 29, 1988). Tokyo estimates that 1987's surplus of $87 billion will decline to $81 billion this year. There is also substantial evidence that stimulative fiscal policies and other government measures are gradually restructuring the economy away from its dependence on exports.

Capitalizing on this position of strength, Mr. Takeshita promoted Japan's proposals on a variety of issues at the summit, including a plan to spend $50 billion in foreign aid in the next five years and a program to deal with the debt of wealthier Third World debtor nations (see JEI Report No. 24B, June 24, 1988). Granted, the current government is not wholly responsible for Japan's booming economy, and much of the groundwork for the aid initiatives was laid by the preceding administration. Nevertheless, his domestic constituency and summit counterparts credit Mr. Takeshita with demonstrating a refreshing new leadership role for Japan.

U.S.-Japan relations - Within the first year of his tenure, Prime Minister Takeshita has helped resolve some of the toughest issues in bilateral economic relations. These include: procedures to allow U.S. firms greater access to Japanese public works projects; an agreement to eliminate Japan's import quotas on beef and oranges; a new accord governing bilateral cooperation in science and technology; a revised bilateral nuclear cooperation pact; strengthened Japanese controls on the export of militarily related technology; Tokyo's agreement to assume a bigger share of the costs of maintaining U.S. troops in Japan, and joint development of Japan's next-generation fighter support aircraft. U.S. Ambassador to Japan Mike Mansfield credited Mr. Takeshita's results-oriented drive in stating that "for the first time in memory there are no major U.S.-Japan trade issues on the table." While much of the spadework on these issues was done before Mr. Takeshita entered office, some analysts contend that only an experienced political practitioner like the prime minister could have garnered the necessary domestic support to bring these proposals to fruition.

Japan-European Community relations - Mr. Takeshita embarked on a seven-nation tour of Europe in May and early June to sow the seeds for improved relations with these countries. Although there were no major breakthroughs on pending trade disputes, the prime minister's promise to take a "personal interest" in facilitating resolution of certain cases generally improved the atmosphere. His European counterparts also responded favorably to his first major foreign policy address in which he presented his "International Cooperation Initiative" -- a three-part plan involving Japanese support for international

peace initiatives, increased cultural exchanges between Japan and other countries and expanded official development assistance. Mr. Takeshita took advantage of this opportunity to do some preliminary lobbying against a potential "fortress Europe" response to full economic integration of the European Community, scheduled to be completed by 1992.

Japan-ASEAN relations - The Takeshita administration has demonstrated an even greater economic commitment than its predecessors to its Southeast Asian neighbors through expanded foreign aid. It also has promised to consider special financial assistance to ASEAN members plagued by huge external debts (see JEI Report No. 27B, July 15, 1988). The security area, however, is where impressive gains have been made. At the July 7 Japan-ASEAN ministerial meeting, Foreign Minister Sosuke Uno indicated that Tokyo would consider funding an international peacekeeping force for Kampuchea as well as sending civilian personnel to supervise elections there after peace is restored. Since Japan's longstanding policy prohibits the dispatch of its Self Defense Forces to another country, Tokyo has increasingly offered non-military assistance to troubled parts of the world, usually in the form of economic assistance. The proposed dispatch of civilian personnel would appear to be in line with the Takeshita "International Cooperation Initiative."

Also significant was Japan Defense Agency director general Tsutomu Kawara's June 29-July 6 tour of the region -- the first such visit since the end of World War II by a high-level Japanese defense official. The main purpose of the trip was to reassure regional leaders that Japan will never become a major military power, even though the country has been steadily improving and expanding its defense capabilities in accordance with U.S. requests.

Japan-Australia relations - During his July 1-4 trip to Canberra, Prime Minister Takeshita and his Australian counterpart Bob Hawke concluded a comprehensive accord to improve cooperation between the two countries. They also agreed to hold senior working-level consultations on the possible impact on the Asian Pacific region of the U.S.-Canada free trade agreement and the European Community's integration plan. Japan and Australia are concerned about the exclusionary implications of these trade agreements. Although Mr. Takeshita did not put forth his own administration's proposal for a summit meeting of the Pacific Rim nations, he did advance Mr. Nakasone's proposal to establish a "Pacific League of Parliamentarians." This plan, which was well received in Canberra, would bring together legislative representatives from the democracies in the Asian Pacific region.

The only foreign policy area where the prime minister may have seriously stumbled was in his handling of a cabinet official's repeated gaffes denying Japan's aggressive behavior in World War II. In an April 22 statement to reporters visiting Tokyo's Yasukuni Shrine, which is dedicated to the war dead, Seisuke Okuno, director general of the National Land Agency, stated that Japan was simply "protecting itself against the white race that had turned Asia into a colony." This remark was followed by statements in which he maintained that the Sino-Japanese war had started "accidentally" and that Japan had no intention of depriving China of its land and assets. He later refused to retract these statements.

Mr. Takeshita, who is planning his first trip to China in late August, dissociated his government from Mr. Okuno's remarks. However, he did not fire his Land Agency chief until opposition parties forced his hand by threatening to draft a dismissal resolution. The resolution would have presented the prime minister with a major problem: he would have been compelled to support Mr. Okuno out of party loyalty -- an act that would have been inexcusable to China, South Korea and indeed the world community.

Some observers suggested that the incident would hurt the Takeshita administration both domestically and internationally. On the domestic front, there was speculation that the prime minister would never be able to push legislation through the Diet that would halt the soaring prices of land since Mr. Okuno had played a crucial behind-the-scenes role. On this point, Mr. Takeshita has proven them wrong. The foreign policy impact is still problematic; whether or not Beijing attributes the prime minister's handling of this episode to his general lack of appreciation for the delicate balance in Sino-Japanese relations will become better known later this summer.

Tax Reform: A Make-Or-Break Issue

Although the prime minister has surprised his supporters and detractors alike with the success of his international forays, the true test of his leadership and political mettle will be in shepherding through the Diet legislation aimed at restructuring Japan's tax system. The continued challenges of controlling land prices and liberalizing the agricultural sector pale in comparison to what is at stake with tax reform. The prime minister has explicitly stated that the fate of his government hinges on successful passage of tax reform legislation. No one need remind him of Mr. Nakasone's fate after his effort to enact a tax reform plan last year failed to garner the support of his own party.

Prime Minister Takeshita, however, has a couple of factors working in his favor. Foremost, there is far broader recognition among the voting public that the existing system must be overhauled. The Nakasone effort, although a devastating political defeat for the former prime minister, served an invaluable educational function at the grass roots. Mr. Takeshita, in his inimitable cautious style, released portions of his plan over a period of months to gauge public acceptance. He also introduced a new wrinkle to the standard tax policy process by forming a committee of Ministry of Finance and LDP representatives that deliberated various proposals and drafted a final plan.

Mr. Takeshita's main problem will be in garnering the acquiescence of the opposition parties, which strongly oppose one component of the package -- a new indirect tax now labeled a consumption tax. They have demanded that the prime minister dissolve the lower house for a general election in which taxpayers can have a say on the proposal. Mr. Takeshita thus far has refused to go this route. Nevertheless, he recognizes that he risks losing stature on the tax reform issue; if the opposition parties refuse to participate in Diet proceedings and the prime minister pushes the law through in their absence, he will be widely regarded as resorting to the "tyranny of the majority" -- something not done in Japanese politics.

The tax reform package submitted to the Diet is stimulative, with total tax reductions (Y5.6 trillion or $44.8 billion in FY 1990) outweighing increases (Y3.2 trillion or $25.6 billion). The controversial consumption tax

would add a 3 percent tax on all goods and services except for: food, medical fees paid by public insurance, tuition fees, public works projects, real estate transactions, transfers of securities, insurance, loans, exports and international postal transfers. Firms with annual sales of less than Y30 million ($240,000) will be exempt from the consumption tax, and those with annual sales under Y60 million ($480,000) will pay a reduced rate. The exemptions have made the entire package more palatable to the business community and other interest groups that support the LDP.

The prime minister reached an agreement with the opposition parties at the close of the regular Diet session in May to convene an extraordinary session to act on tax reform. Although Komeito, the Japan Socialist Party and the Japan Communist Party have stood firm in their opposition to the indirect tax, Mr. Takeshita's renowned deal-making skills appeared to be softening the Democratic Socialist Party. Saburo Tsukamoto, chairman of the fourth-largest party, offered to discuss the package if the LDP agreed to amend the existing tax loopholes first and separate the tax-cut bills from the rest of the package. With the support of one opposition party, the LDP could claim that it did not ram tax reform through the Diet. Without such backing, the ruling party could alienate voters, possibly weakening its strength at the grass roots and costing the LDP seats during the next election.

As the opening of the special Diet session approached, the prospects for tax reform did not appear all that bleak for the Takeshita administration. However, Asahi Shimbun, a newspaper known for its anti-government stance, further stoked the opposition parties' fires by questioning unusually high profits from stock transactions of personal aides to several key political figures. Among these were aides to Mr. Takeshita, Mr. Nakasone, Finance Minister Kiichi Miyazawa and LDP secretary general Shintaro Abe. Shares of Recruit Cosmos Co., Ltd. initially were sold for Y1,200 each ($9.60) to 76 people, including the personal aides, when the company was strapped for cash in 1984. When the real estate firm went public two years later, the aides and others sold their shares when the price per share topped Y5,000 ($40), earning between Y50 million ($400,000) and Y120 million ($960,000) each. Such deals, although legal and not unheard of in Japan, raise ethical questions since the investors were linked to central and local government officials.

Although the prime minister and other top officials were not personally involved and nothing illegal appears to have been done, public outrage has been quite strong, with some people comparing the episode to the 1976 Lockheed scandal that involved kickbacks to government officials and eventually forced former Prime Minister Kakuei Tanaka to resign his Diet seat. Mr. Takeshita has criticized his aide's conduct as improper, and it is almost certain that the aide will step down. Nevertheless, the opposition parties grasped at this straw as a means to block passage of the consumption tax; they insisted on a full airing of the scandal during the extraordinary session. Their goals were to further delay consideration of the tax measures and to score points with voters by attempting to show that LDP leaders resorted to insider trading to fill their campaign chests while asking the public to pay more taxes.

Behind-the-scenes wheeling and dealing resulted in the Takeshita administration cutting another deal with the opposition parties to convene the special session July 19 under the following conditions: (1) acceding to opposition demands, the ruling party agreed to act on the tax cut proposal

before Mr. Takeshita addressed the Diet -- a highly unusual protocol exception for which the opposition parties agreed not to boycott the session; (2) both sides agreed to the creation of a forum to discuss how to correct "tax inequalities" and to map out a mid-term administrative reform and social welfare plan -- an LDP attempt to keep the indirect tax proposal alive, and (3) the LDP agreed to examine the public policy implications of the stock scandal in the budget committees of both houses.

As the above suggests, Mr. Takeshita, for all his bargaining power, may yet stumble and fall on this issue. The opposition parties already appear to be chipping away at what many feel is the relatively "uncontroversial" part of the total reform package. There is speculation that if the opposition becomes too unreasonable the prime minister may decide to railroad the legislation through the Diet in the fall and then presumably attempt to shore up LDP support at the local level. Another view has Mr. Takeshita calling the opposition's bluff by quickly dissolving the lower house and calling for elections in an effort to restore order to the Diet. In any case, what may well become the prime minister's political fight of a lifetime has just begun, and at this stage no one is willing to place any bets on the outcome.

Prospects: Two Years or Four Years?

A prime minister's ability to contribute meaningfully to Japanese public policy depends entirely on how long his party allows him to lead, which is largely influenced by the breadth of public support he enjoys. After the LDP's June announcement of its sweeping tax reform initiative, Mr. Takeshita's public approval rating fell to 43 percent, which marked a decrease of 10 percentage points since January (see Chart 2). Some regard this gradual decline as typical of a prime minister's first year in office and not unduly alarming.[4] Mr. Nakasone, by comparison, was able to sustain LDP backing and serve two consecutive two-year terms, even though his public approval rating sometimes dipped precariously below 30 percent.

Chart 2: Public Support for the Takeshita Cabinet
November 1987-July 1988

Source: Yomiuri Shimbun

[4]Thayer, op. cit.

The prevailing view in Tokyo, however, is that Mr. Takeshita's LDP colleagues will be carefully watching how the electorate responds to the prime minister during these next crucial months. If Mr. Takeshita is unable to get the tax package through the Diet, he will be out of office in 1989, according to conventional wisdom. Not only would he have lost his domestic constituency, but he also might end up losing his effectiveness in international forums. At the Toronto summit, in particular, the prime minister committed his government to promoting tax reform and deregulation of the distribution system as well as revision of land use policies. The prime minister still has to prove to his industrial nation peers that there is more to his leadership and diplomacy than simply jetting around the world. Without hard proof of leadership his administration might go down in the history books as another traditional Japanese government that was ill-equipped to lead the nation into a new era of expanded global responsibilities.

The LDP leader does possess certain attributes that may well carry him through the tax quagmire. First, he is a familiar figure to the Japanese public. While it was often difficult for the electorate to appreciate Mr. Nakasone's dynamism, Mr. Takeshita's cautious, deliberative style is regarded as nihonteki -- characteristically Japanese. Second, he is a team player both in LDP politics and bureaucratic policymaking. With the exception of Mr. Okuno, the first Takeshita cabinet remains intact, although changes may take place if, or when, the tax package is passed. Within the ruling party, he enjoys far broader support than his immediate predecessor. Mr. Takeshita earned the prime minister's post through painstaking interfactional negotiations, which also resulted in his chief opponents receiving senior cabinet and party leadership positions. Thus, it would be very difficult for a potential successor to effect an ouster at the end of Mr. Takeshita's second year in office unless he had the solid backing of the prime minister and his faction, the largest in the LDP.

The prime minister's first nine months in office have been productive from a diplomatic standpoint -- and he has certainly dispelled preconceived notions about his lack of ability in global affairs. Whether Mr. Takeshita will be remembered as a true governmental leader or simply as a political functionary will be better known as the rest of his term unfolds.

For further information, contact Barbara Wanner.

* * * * * *

The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

APPENDIX

The Takeshita Cabinet

July 1988

Position	Name	Faction
Prime Minister	Noboru Takeshita	Takeshita
Deputy Prime Minister	Kiichi Miyazawa	Miyazawa
Finance	Kiichi Miyazawa	Miyazawa
Justice	Yukio Hayashida	Miyazawa
Foreign Affairs	Sosuke Uno	Nakasone
Education	Gentaro Nakajima	Abe
Health and Welfare	Takao Fujimoto	Komoto
Agriculture, Forestry and Fisheries	Takashi Sato	Abe
International Trade and Industry	Hajime Tamura	Takeshita
Transportation	Shintaro Ishihara	Abe
Posts and Telecommunications	Masaaki Nakayama	Nakasone
Labor	Taro Nakamura	Takeshita
Construction	Ihei Ochi	Nakasone
Home Affairs	Seiroku Kajiyama	Takeshita
State Ministers:		
Chief Cabinet Secretary	Keizo Obuchi	Takeshita
Management and Coordination Agency	Osamu Takatori	Takeshita
National Land Agency	Hideo Utsumi*	Takeshita
Japan Defense Agency	Tsutomu Kawara	Miyazawa
Economic Planning Agency	Eiichi Nakao	Nakasone
Science and Technology Agency	Soihiro Ito	Komoto
Environmental Agency	Tohio Horiuchi	Abe
Okinawa and Hokkaido Development Agencies	Shigeru Kasuya	Miyazawa
Cabinet Legislative Bureau	Osamu Mimura	Unaligned

*Replaced Seisuke Okuno May 13, 1988.

Factional Alignments in the Liberal Democratic Party

November 30, 1987

Faction	Number of Members
Takeshita	114
Miyazawa	89
Nakasone	87
Abe	87
Komoto	31
Nikaido	15
"Neutrals"*	12
Independents	10

*Former Tanaka faction members currently unaligned.